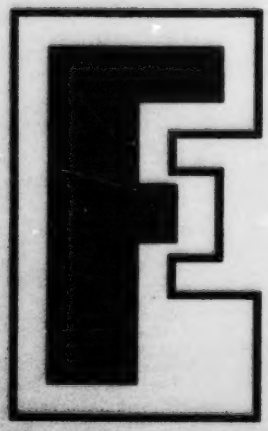

Economics & Forecasts Division
Power System Program Branch

SHORT-TERM ECONOMIC OUTLOOK
ANNUAL REVIEW

September 1988

**This Review replaces the May 1988
Short-Term Economic Outlook.
The forecasts contained in it have been approved by the
Vice-President, Corporate Planning.
They have the status of Corporate Predictions as defined under
Section 7 of the OOOH Manual.**

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File No.: 706.01 (#245)

FORECAST SUMMARY*

	Actual	Forecast				
	1987	1988	1989	1990	1991	1992
Economic Growth (% Change)						
Real GDP - Canada	3.9	3.8	2.5	2.1	3.2	3.4
- Ontario	4.2	3.9	2.7	2.3	3.5	3.8
- United States	2.9	3.5	2.5	1.8	3.0	2.7
Unemployment (%)						
Canada	8.9	7.7	7.8	8.0	7.8	7.5
Ontario	6.1	5.4	5.0	4.9	4.7	4.2
Consumer Price Index (% Change)						
Canada	4.4	4.1	4.8	4.5	4.5	4.5
Ontario Composite	4.7	4.5	4.8	4.6	4.5	4.5
Toronto	5.6	4.9	5.2	4.8	4.7	4.6
United States	3.7	4.1	4.9	4.4	3.9	4.5
Financial Markets - Canada (%)						
Real Prime Interest Rates	5.1	6.4	6.2	5.0	4.5	5.0
Prime Interest Rate	9.5	10.5	11.0	9.5	9.0	9.5
Gov't Long-Term Bond Rate	9.9	10.3	10.4	9.0	9.0	9.5
Canadian Dollar (in US cents)	75.4	80.5	80.0	79.0	78.0	78.0
Energy Prices						
International Crude Oil (Saudi Arabia Light, FOB) US $/barrel	17.20	15.00	17.20	18.75	19.75	21.00
Domestic Crude Oil (Toronto) Cdn $/barrel	24.25	21.00	23.75	26.20	27.75	29.30
Natural Gas (Toronto) Cdn $/MMBtu	3.70	3.35	3.60	3.90	4.20	4.40

* Economic Outlook - Fall Review, September 1988

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1.0 FORECAST TABLES

1.1 ONTARIO

	Actual 1987	Forecast 1988	1989	1990	1991	1992
Economic Growth Indicators: (% Change)						
Real Gross Domestic Product	4.2	3.9	2.7	2.3	3.5	3.8
Population	1.7	1.8	1.6	1.5	1.4	1.3
Labour Force	2.4	3.1	2.2	2.0	1.9	1.4
Employment	3.3	3.9	2.7	2.1	2.0	1.9
Labour Productivity	0.9	0.0	0.0	0.2	1.5	1.9
Unemployment Rate (%)	6.1	5.4	5.0	4.9	4.7	4.2
Housing Starts ('000 units)	105.2	88.0	82.0	70.0	70.0	75.0
Cost Indicators: (% Change)						
Consumer Price Index						
- Toronto	5.6	4.9	5.2	4.8	4.7	4.6
- Ontario Average*	4.7	4.5	4.8	4.6	4.5	4.5
Average Hourly Earnings:						
Manufacturing	3.7	5.5	5.0	5.0	5.0	5.0
Construction	7.0	4.5	5.0	5.0	5.0	5.0

* = Composite Price Index weighted by population, based on price trends in Ontario cities.

1.2 CANADA

	Actual 1987	Forecast 1988	1989	1990	1991	1992
Economic Growth Indicators: (% Change)						
Real Gross Domestic Product	3.9	3.8	2.5	2.1	3.2	3.4
Population	1.0	1.0	1.0	0.9	0.9	0.8
Labour Force	1.9	1.8	1.9	1.9	1.7	0.8
Employment	2.8	2.9	1.8	1.7	2.0	1.3
Labour Productivity	1.1	0.8	0.7	0.4	1.3	2.1
Unemployment Rate (%)	8.9	7.7	7.8	8.0	7.8	7.5
Fed Gov't Deficit (As % of GDP)*	4.2	3.9	3.8	3.2	3.0	2.8
Cost Indicators: (% Change)						
Consumer Price Index - Total	4.4	4.1	4.8	4.5	4.5	4.5
Consumer Price Index - Food	4.5	2.6	4.7	4.8	5.1	5.6
Consumer Price Index - Fuel	2.3	0.1	5.8	7.9	8.0	5.5
GDP Deflator	4.6	5.2	5.6	4.2	4.6	5.3
Industrial Product Price - Mfg	2.6	3.7	4.5	5.4	5.7	5.6
Corporate Pre-Tax Profits	25.5	16.5	13.0	0.0	11.0	14.0
Average Hourly Earnings - Mfg	2.4	4.5	5.0	5.0	5.0	5.0
Interest Rates: (%)						
Treasury Bill Rate	8.2	9.2	9.7	9.1	8.1	8.5
Prime Interest Rate	9.5	10.5	11.0	9.5	9.0	9.5
Government of Canada Bonds:						
5 years	9.4	9.7	9.9	8.5	8.5	9.0
20 years	9.9	10.3	10.4	9.0	9.0	9.5
Real Prime Rate	5.1	6.4	6.2	5.0	4.5	5.0
Canadian Dollar (in US Cents)	75.4	80.5	80.0	79.0	78.0	78.0

* Based on the National Income Accounts Definition.

1.3 UNITED STATES

	Actual 1987	Forecast 1988	1989	1990	1991	1992
Annual Percentage Change:						
Real Gross National Product	2.9	3.5	2.5	1.8	3.0	2.7
Consumer Price Index	3.7	4.1	4.9	4.4	3.9	4.5
Hourly Wages	2.7	3.8	4.6	5.0	4.6	5.0
US $ Billions (1983 $):						
Balance of Payments, Current Account	-135	-123	-110	-108	-102	-92
Trade Balance	-149	-110	-85	-75	-65	-50
Average Annual Rate:						
Prime Interest Rate	8.2	9.3	10.1	8.4	7.9	8.3
Government Bond Yields						
- 3 to 5 year maturity	7.9	8.3	8.8	7.4	7.6	8.0
- 10 to 20 year maturity	8.7	9.2	9.5	8.0	8.1	8.5

1.4 WESTERN EUROPE AND JAPAN

	Actual 1987	Forecast 1988	1989	1990	1991	1992
REAL GROSS DOMESTIC PRODUCT[1]						
West Germany	1.7	1.8	2.2	2.0	1.8	1.9
Switzerland	1.3	2.1	2.4	1.8	1.7	2.4
United Kingdom	3.7	3.1	2.3	2.0	2.2	2.4
Japan	3.9	4.5	3.5	3.0	3.5	3.5
CONSUMER PRICE INDEX[1]						
West Germany	0.3	1.3	2.3	2.8	2.8	2.5
Switzerland	1.4	2.5	2.7	2.6	2.5	2.8
United Kingdom[2]	4.1	4.4	5.3	5.5	4.5	4.5
Japan	0.1	0.5	2.0	3.5	3.2	3.0
HOURLY WAGE INDEX (MANUFACTURING)[1]						
West Germany	3.5	4.0	4.5	5.0	5.5	5.0
Switzerland	3.0	3.5	4.5	4.5	4.5	5.0
United Kingdom[3]	7.4	8.5	8.0	8.0	7.5	7.0
Japan	3.6	3.8	4.5	5.0	5.0	5.0
GOVERNMENT BOND RATES[4]						
West Germany	5.9	6.3	6.3	6.5	6.3	6.5
Switzerland	4.1	4.1	4.2	4.4	4.5	4.8
United Kingdom	9.4	9.5	9.8	10.0	9.5	9.5
Japan	4.2	4.6	5.0	5.5	5.5	5.0
WHOLESALE PRICE INDEX[1]						
West Germany	-2.3	1.4	2.5	2.0	2.5	3.0
Switzerland	-2.4	2.3	2.7	1.5	2.5	3.0
United Kingdom	3.8	4.5	5.0	5.0	4.5	4.5
Japan	-3.8	-1.2	2.5	3.0	3.0	2.5
EXCHANGE RATES[4] (UNITS PER US DOLLAR)						
Deutschemark	1.80	1.78	1.86	1.75	1.70	1.65
Swiss Franc	1.49	1.48	1.56	1.47	1.43	1.40
UK Pound[5]	1.63	1.78	1.71	1.65	1.60	1.60
Japanese Yen	145	130	135	130	130	130
EXCHANGE RATES[4] ($CAN/CURRENCY)						
Deutschemark	0.739	0.700	0.671	0.723	0.754	0.777
Swiss Franc	0.890	0.839	0.802	0.861	0.897	0.916
UK Pound	2.166	2.210	2.130	2.090	2.050	2.050
Japanese Yen[6]	0.919	0.960	0.929	0.974	0.986	0.986

[1]Annual Average Percentage Change
[2]Retail Price Index
[3]Monthly Earnings Index
[4]Annual Average Rate
[5]US $ per pound
[6]Per 100 yen

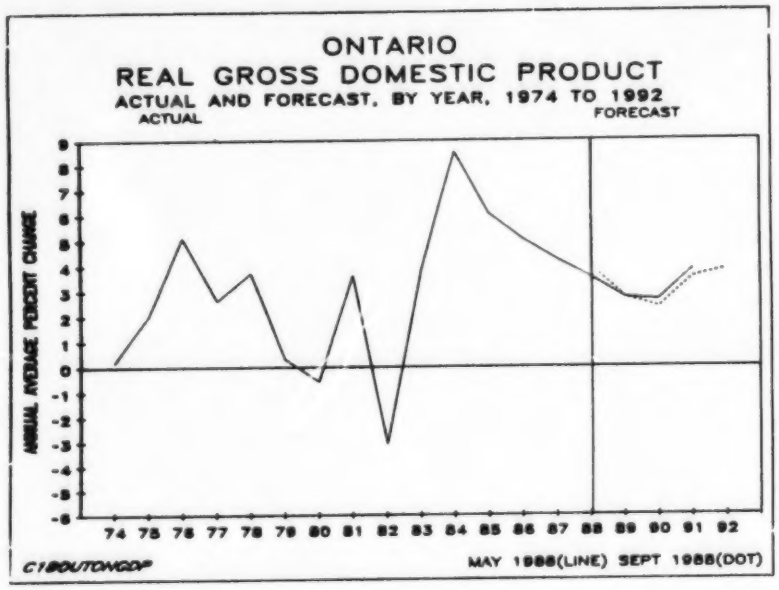
1.5 ENERGY

	Actual	Forecast				
	1987	1988	1989	1990	1991	1992
WORLD OIL PRICES						
($ per Barrel)						
Persian Gulf Light Crude, FOB						
Current US Dollars	17.20	15.00	17.20	18.75	19.75	21.00
Constant US 1988 Dollars	17.90	15.00	16.40	17.10	17.30	17.70
Average Cost Light Crude (WTI) Chicago Refiners						
Current US Dollars	19.16	17.00	19.00	20.50	21.50	23.00
Constant US 1988 Dollars	19.90	17.00	18.10	18.70	18.90	19.40
CANADIAN CRUDE OIL AND NATURAL GAS PRICES						
Crude Oil						
(Canadian $ per Barrel)						
Ontario Refinery Acquisition Cost (Light Crude)						
Current Dollars	24.25	21.00	23.75	26.20	27.75	29.30
Constant 1988 Dollars	25.30	21.00	22.60	23.90	24.30	24.50
Natural Gas						
(Canadian $ per Million Btu's)						
Average Wholesale Price at Toronto*						
Current Dollar	3.70	3.35	3.60	3.90	4.20	4.40
Constant 1988 Dollars	3.85	3.35	3.45	3.55	3.65	3.70

* A weighted average of the negotiated prices for Ontario.

2.0 ONTARIO

2.1 Economic Growth



Actual	% Change
1974	2.2
1975	0.6
1976	5.6
1977	1.9
1978	2.8
1979	2.7
1980	-0.3
1981	3.4
1982	-4.3
1983	5.4
1984	8.7
1985	5.0
1986	6.5
1987	4.2

Forecast	MAY/88	SEPT/88
1988	3.5	3.9
1989	2.7	2.7
1990	2.6	2.3
1991	3.8	3.5
1992		3.8

Ontario's economic performance has followed quite closely the expectations summarized in the Spring Review. Year-over-year growth rates in the first four months of 1988 were slightly higher than estimated, however, so the forecast of Gross Domestic Product growth is being raised from 3.5% to 3.9%. Provincial increases have been almost identical to those for Canada as a whole, with the major stimulus originating in the service industries (trade and real estate) and in manufacturing.

Nonetheless, while provincial growth could still be considered healthy, the pace of activity has been moderating gradually since mid-1987. Monthly increases have fallen from peaks of 6.8% in March last year to an estimated low of only 3% in March this year. Moreover, judging from the developing weakness in retail sales, residential construction and from the announced cutbacks in provincial government employment and the lull in capital investment, there seems little doubt that growth will slip to the

3-1/2% to 4% range during the second half of the year.

It also appears that a slowdown will occur in other parts of Canada and the United States over the not too distant future. Consumers, already overburdened with debt from the post-recession spending spree and from recent housing purchases, will be forced to tighten their purse strings and rebuild savings. The timing and magnitude of the deceleration will depend, to a large extent, on the path of interest rates over the next little while.

Since expensive durable goods, including cars, furniture and appliances, are expected to take the brunt of the slowdown in domestic as well as export sales, there could be sizable repercussions for our manufacturing sector. Industries related to the construction cycle are already witnessing a negative change in fortunes. Nor are auto and auto parts companies expected to enjoy a continuation of the buoyancy experienced early in the year. On other fronts, the high Canadian dollar is intensifying recent losses in competitiveness and with a free trade deal still a possibility by year-end, we may well be facing some transitionary adjustments in 1989.

Because of a further softening in house building activity and less significant growth in real estate, finance and business services, Ontario real growth is forecast to sink to only 2.7% in 1989 and to slip further to 2.3% in 1990. Growth would be even weaker if not for the stimulus provided by the ongoing spate of foreign immigration and personal income tax reductions. In addition, if the free trade deal passes, it is extremely likely that a renewed capital investment surge will be underway within the next year or two as companies gear up for a larger market.

2.1.1 Consumer Spending

It is starting to look like the five-year consumer spending spree is nearing an end. Growth in retail sales has slipped gradually from over 13% (year-over-year) in mid-1987 to only 7% in April 1988. Interest rates are higher and personal indebtedness has now surpassed the peaks set in 1979. Both consumer and mortgage credit have been rising at rates in excess of 15% for over a year now and this debt as a percentage of personal disposable income has reached levels unequalled in the past two decades. Savings rates have plummetted to only 7% of disposable income, a ratio not seen since the 1960s.

While a sense of security bred by the ongoing strength in the provincial economy, by record job creation, low unemployment rates and rising real

incomes continues to keep consumer attitudes quite positive, surveys taken in June suggest that this optimism (not quite as pronounced as in March) will not necessarily be translated into higher purchases. Consumers are starting to become concerned about their personal financial situation.

Costly items like furniture and appliances and non-essential luxury goods like microwave ovens, computers, VCRs and compact disk players will probably be the first to witness the crunch. A slump in real estate sales will be a further depressant. Continuing incentives schemes, however, may be able to prevent a serious deterioration in vehicle sales over the next few years. In fact, we may be entering the initial phase of a new car-buying cycle since many of the cars bought immediately following the 1982 recession are now five years old. If so, the emerging slowdown in retail sales will not be unduly harsh.

Other factors give weight to this opinion. Although data over the past few months indicate a softening in per capita spending, a continued hefty inflow of foreign migration over the near term will cushion the moderation in total outlays. Moreover, reductions in personal income taxes taking effect in the summer of 1988 will give debt-burdened consumers some assistance even though this is likely to be counterbalanced by a substantial drop-off in job creation. Therefore, all things considered, the outlook for retail sales, while much less optimistic, is not projected to be as much of a drag on total economic growth as in many other provinces.

2.1.2 Capital Investment and Construction

Investment surveys indicate that capital spending plans are not quite as optimistic for Ontario this year. Outlays are estimated to rise 8.1%, still healthy but subdued compared with the much more substantial 17% of 1986 and 1987 and the 28% of 1985. For the first year since the 1982 recession, Ontario will not exceed nation-wide increases.

Beneath the surface, however, the state of affairs is not as dismal as it appears. For the most part, the subdued rate of expansion occurs because of a 3% decline in expenditures for residential construction (a sector which accounts for almost 30% of the province's total investment). In fact, this sector may be even more depressed than original surveys suggest given that housing starts have declined somewhere in the neighbourhood of 15 to 20%. Elsewhere, activity is holding up reasonably well. Manufacturing investment, which had a lull in 1987, (a year of consolidation when projects,

expansions and modernizations begun in prior years were completed) is expected to be up 14.5% Substantial new undertakings are planned by petroleum companies (up 44%), chemicals (up 16%), food and beverages (up 23%), wood (up 52%), paper (up 52%), transportation equipment (up 20%), textiles (up 25%) and non-metallic minerals (up 30%). Given the current high usage of existing industrial capacity, strong corporate balance sheets as well as the almost certain passage of the Free Trade deal, manufacturing investment in particular is almost sure to remain at high levels over much of the short-term forecast horizon. Companies are realizing to a much greater extent that in order to compete they must keep abreast of new technology to modernize production facilities and techniques. Investment for machinery and equipment is forecast to remain hefty, escalating 15% this year. Construction expenditures in comparison are not quite as robust.

While, over the next few years, industrial building may witness above-average growth as companies prepare for the broader opportunities created by Free Trade, the residential sector is probably destined for several more years of steadily declining activity. Ontario housing starts are estimated to total 88,000 units, a more than respectable figure but still some 17% below last year. Further reductions to 82,000 units in 1989 and to 70,000 in 1990 and 1991 are predicted. In the short term, this is based on a cooling off in the real estate market and on the less favourable economic and financial conditions; in particular, the marked moderation in new job creation, higher interest rates and already significant accumulations of debt. Inventories of single detached as well as multiple unit housing are mounting despite the ongoing shortage of rental units.

As for commercial construction, the boom seems to be continuing unabated through 1988. Nonetheless, judging from the amount of new space that has come on stream in the last few years in addition to the square footage now under construction, 1989 and 1990 will probably see a cooling off period when large projects are completed and inventory has to be absorbed.

Private and Public Investment
(year-over-year % change)

Ontario, by Sector	Actual 1987	Estimate 1988
Primary Industries	7.2	11.5
Manufacturing	-4.7	14.5
Utilities	12.2	20.0
Housing	30.0	-2.7
Ontario, Total Capital Investment	14.7	8.1
Canada, Total Capital Investment	11.8	10.1
Rest of Canada, Total Capital Investment	9.9	11.5

Source: Statistics Canada

2.1.3 Manufacturing

Manufacturing, the mainstay of the provincial economy, is providing a much greater stimulus to overall growth than it did last year. Shipments began to pick up visibly during the final quarter of 1987 and have remained fairly strong through the early months of 1988.

Certainly the turnaround in the auto industry (responsible for almost 30% of the province's total manufacturing shipments) has been a key factor. Compared with output declines of around 5% last year, monthly shipments, due to the unexpected upsurge in vehicle demand, were up 14.5% (year-over-year) in the first four months of 1988. Steel production, though not displaying as brisk an expansion as the auto industry, is also growing well above average because of continuing strong requirements for structural steel as well as inputs for appliances, cars and parts. Electrical products have been another high-flyer due to robust demand for appliances, VCRs, compact disks, microwave ovens and the like. Shipments of chemicals have also put in an above average performance.

Nonetheless, all manufacturing industries have not been enjoying the same prosperity. Wood products, after several incredibly strong years, are finally shifting into lower gear in tandem with declining housing starts. Non-metallic minerals (concrete, cement, glass) are in a similar situation. Refined petroleum products as well as food and beverages

remain depressed. Pulp and paper may also be showing signs of weakening.

Undoubtedly, consumer demand will support many manufacturing industries through a few more months of relatively healthy growth. However, with spending already starting to soften and with further slack developing by year end, output will not take long to follow suit. Although producers are attempting to keep inventories in check, they may be unable to prevent some build-up from occurring if product sales shift directions rapidly. This would sustain 1988 production figures while detracting from 1989 levels.

Looking to the latter half of 1988 and to 1989, a weaker North American economy suggests pallid growth for most of the province's manufacturing firms. A softening in real estate markets almost ensures that purchases of housing related durables and construction materials will flag. The closing of one of General Motor's Oshawa plants for retooling in the August to December period of 1988 will reduce vehicle and parts output. In addition, North American car sales, which held up so well in the first part of this year, are also destined for some slackening in sales.

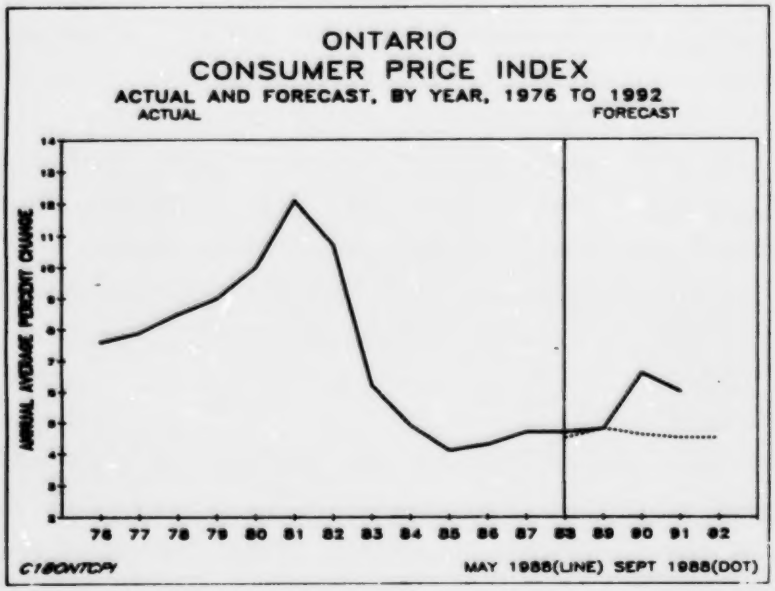
This forecast assumes that a free trade agreement with the United States comes into effect on January 1, 1989. Although only a few industries face total elimination of duties in 1989, almost all our manufacturers will be looking at some kind of reduced protection in that year as part of a gradual tariff removal program between 1989 and 1998. In fact, some 75% of the trade between the United States and Canada already moves duty free and duties for the remainder are quite low. Nonetheless, since in almost all cases Canadian tariffs at the outset are higher than American ones, the aggregate impact at least for the first few years is likely to be mildly negative. Moreover, the relatively high value of the Canadian dollar through the early years of the agreement, along with our higher rate of wage increases and insignificant productivity advances in 1986, 1987 and 1988, is causing a deterioration in domestic competitiveness.

For the most part it will be our small and/or uncompetitive industries, such as tobacco, beverages, leather, clothing and textiles which have high tariff protection (20 to 40%), that will experience the largest negative impact. More often than not these industries already suffer a trade deficit which free trade will only exacerbate. On the other hand, three-quarters of Ontario's total exports to the United States are items produced by our largest manufacturers: autos and auto parts, aircraft, wood, pulp and

paper and machinery. These industries are generally either highly competitive, export oriented and/or have a specialized niche in the marketplace. Such companies should, over the intermediate to longer term, benefit from free trade and the broader horizons created by entry into the huge American market. On balance, the positives more than outweigh the negatives, but the overall impact in the short term is still estimated to be fairly small.

2.2 Prices and Wages

2.2.1 Prices


ONTARIO
CONSUMER PRICE INDEX
ACTUAL AND FORECAST, BY YEAR, 1976 TO 1992
ACTUAL
FORECAST
ANNUAL AVERAGE PERCENT CHANGE
76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92
C1BONTDPY
MAY 1988(LINE) SEPT 1988(DOT)

Actual	% Change
1976	7.6
1977	7.9
1978	8.5
1979	9.0
1980	10.0
1981	12.1
1982	10.7
1983	6.2
1984	4.9
1985	4.1
1986	4.3
1987	4.7

Forecast	MAY/88	SEPT/88
1988	4.7	4.5
1989	4.8	4.8
1990	6.6	4.6
1991	6.0	4.5
1992		4.5

Canadian inflation has pretty well confined itself to the neighbourhood of 4% so far this year, increases in the Consumer Price Index staying within a narrow band of between of 3.8% and 4.2% for the past seven months. Toronto price increases have averaged between 4.5% and 4.9%. Energy prices (responsible for an 8% weight in the basket of goods and services comprising the CPI) are currently rising at only 3.6% over last year. Food prices (with a weight of 20%) are up only 2%. The fastest rising prices at the moment are for tobacco and alcohol

products (tax increases) as well as for services. Both have risen 7% in the first five months of 1988.

Yet despite current patterns, many factors suggest that price increases will drift higher through the second half of 1988 and in the early part 1989. Commodity prices, not including the oil and gas component which is down 9.5%, are expanding at 7.1%. Pulp and newsprint, zinc and aluminum have registered major price gains through 1987 and 1988. Agricultural prices, including wheat, hogs and cattle, have started to edge upwards and this summer's drought ensures drastically higher grain prices before long. Low oil prices will act to counterbalance this for the present, but depending on when energy prices begin to escalate again and depending on how long it takes and how much of commodity price hikes actually end up being included at the consumer level, we may be seeing much heftier changes in the consumer price index for a few months in late 1988 and early 1989.

Also of concern right now is the continued strength of consumer demand alongside the much tighter labour markets and the very high utilization of existing industrial capacity, a situation which tends to generate high wage demands and rising profit margins. Nonetheless, such upward pressures will probably be short-lived. It is very clear that the Bank of Canada is firmly committed to an anti-inflationary policy. At any major sign of higher inflation, interest rates will be raised in order to stifle demand. Another factor limiting price expansion in Canada over the very near term is the continued strength of the Canadian dollar. This has already noticeably lowered the prices of imported goods. However, given that our currency is already judged to be overvalued, this moderating influence will not last long.

Thus, all factors together indicate that Canadian inflation can be maintained at around 4.5% over the next few years. Nonetheless, inflation is unlikely to retreat below 4% because of the renewed pressure from oil prices. Also, in this forecast we have removed the assumption regarding the introduction of the federal government's proposed goods and services tax. It has been pretty well confirmed that the tax will not be implemented in 1990: given the controversy surrounding it, it is difficult to say when (if ever) this tax will be enacted.

On the provincial scene, overall trends are much the same as at the national level. Nonetheless, over the past few years price increases in the various metropolitan centres of Ontario have varied dramatically. Last year, Toronto experienced an inflation rate averaging 5.6%, which was 1.2 percentage points

higher than the Canadian average. The higher rate was due to the city's incredibly buoyant economy, strong demand and high incomes. Price hikes in other regional centres, however, have been well below the national average. In Ottawa, inflation averaged only 4.0% in 1987 and in Thunder Bay a remarkably low 3.2%. While this variance in price movements does seem to be a relatively new phenomenon, it will not necessarily be of short duration. Thus, in order to gauge average price trends province-wide more accurately, a composite Ontario Price Index was devised based on limited city information published by Statistics Canada.

Because economic growth is cooling off, Toronto inflation has not exceeded the national average by nearly as large a margin so far in 1988. House prices are levelling off, demand is generally easing and job creation will soon slow. Nonetheless, the spread is unlikely to narrow further over the near term. The hike in Ontario's retail sales tax announced in the 1988 Provincial Budget ensures that we will be facing price increases not experienced by residents in other provinces. The tax increase is only expected to add two-tenths of one percentage point to provincial inflation this year and will have almost no effect in 1989. As a result, the increase in the Toronto Price Index is estimated to average 4.9% in 1988, 5.2% in 1989 and 4.8% in 1990. The increase in the Ontario composite index will be somewhat lower at 4.5%, 4.8% and 4.6% respectively.

2.2.2 Wages

After five and a half years of strong economic growth and pay hikes which generally have not kept pace with inflation, Ontario wage increases are on their way up again. Moreover, with the spectacular job creation of the past few months, unemployment rates below 5% and utilization of industrial capacity at peak levels, workers are now in a very good position to press for more money. A recent poll indicated that labour unrest was, indeed, heating up. Some 69% of the unionized workers in Toronto were ready to strike for higher wages. (This was much higher than the average 44% in Canada as a whole.) Whereas the primary focus of employees over the past few years has been job security and benefits packages, now with such needs largely satisfied the primary goal has shifted to wages.

This state of affairs, however, is really only apparent in Central Canada. The West, still plagued with lacklustre economic activity, is accepting wage settlements of only 2% versus Ontario's 4.4% and Quebec's 4.7%. Increases in Ontario manufacturing wages have jumped from only 3.5% on average in 1987 to

almost 5% in the first four months of 1988, undoubtedly parallelling the much better performance in manufacturing output. Nonetheless, with prospects of weaker economic growth and job creation on the horizon, it seems quite unlikely that wage increases will get much above 5% over the next few years. Furthermore, the current strength in the Canadian dollar is having a noticeable impact on the competitiveness of our manufactured products just at a time when we are entering into a free trade pact with the United States. One can only assume that in future there will be an aggressive move by employers to bring Canadian wage growth more in line with relevant American increases.

The state of affairs is somewhat more restrained in the construction sector. Last year, many of the construction trades sought to recoup some of the losses in real incomes which had occurred over the 1978 to 1986 period. As a result, hourly wages in the construction industry advanced by 6.9% in 1987. This year, however, wage increases have moderated somewhat. The settlement recently attained by the electrical workers union will tend to push up the industry's average gain for 1988 slightly, but since the large majority of construction unions settled last year, wage increases this year in general will probably be kept to only 4.5%. The construction industry is notoriously cyclical with both output and wage gains rising and falling dramatically from one year to the next. Assuming a much weaker pace of construction in 1989 and 1990 annual increases are expected to remain in the 4.5 to 5% range.

Public sector wages, which have led private sector wages through most of the post-1982 recovery, are now experiencing below-average increases. The current Ontario government hiring restrictions suggests this policy of restraint will continue. Remuneration in other service industries including trade, finance, insurance as well as business and personal services has been limited to hikes of only 2%, with much of the softness related to the October stock market crash. It is the primary industry which has been recording the highest increases this year. After extended weakness wages are following resource prices upwards.

Looking further ahead to 1990, Ontario wage increases are forecast to remain in the 5% range. This assumes that inflation does not get above 5% and that the federal government does not introduce its controversial goods and services tax. It also assumes that provincial competitiveness vis-a-vis our American neighbours generates much more attention once free trade becomes a reality.

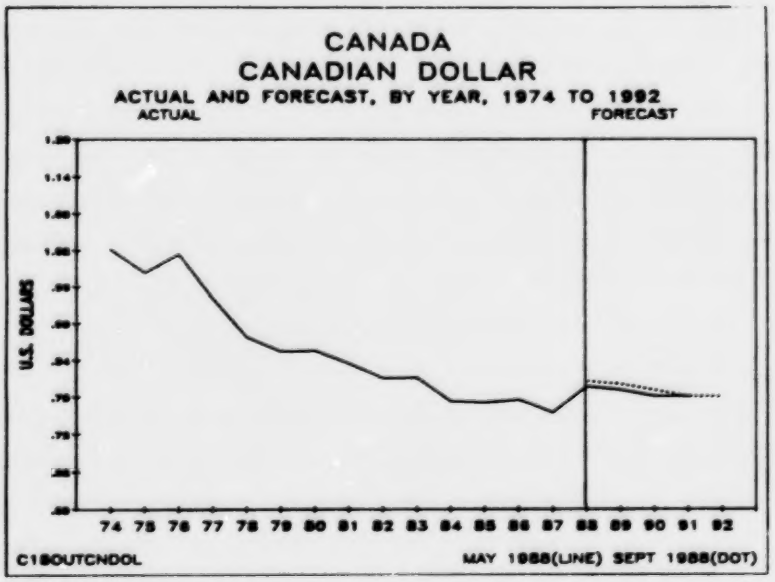
Percentage Increase in Base Wage Rates
All Industries

		Agreements Without COLA		Agreements With COLA	
		Ont	Can	Ont	Can
1985	4th Q	5.5	3.7	5.5	4.5
1986	1st Q	4.7	3.6	4.8	3.5
	2nd Q	4.3	3.7	4.2	3.4
	3rd Q	4.1	3.2	4.8	2.5
	4th Q	4.4	3.3	4.7	3.4
1987	1st Q	4.8	3.7	4.0	4.3
	2nd Q	5.1	4.0	2.7	4.2
	3rd Q	4.8	3.9	4.8	3.7
	4th Q	5.1	3.7	4.8	4.7
1988	1st Q	4.5	4.0	4.0	4.0

Source: Labour Canada

3.0 CANADA

3.1 Canadian Dollar and Interest Rates


CANADA
CANADIAN DOLLAR
ACTUAL AND FORECAST, BY YEAR, 1974 TO 1992
ACTUAL
FORECAST
U.S. DOLLARS
74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92
C1BOUTCNDOL
MAY 1988(LINE) SEPT 1988(DOT)

Actual	Number of US Cents
1974	102.2
1975	98.3
1976	101.4
1977	94.0
1978	87.7
1979	85.4
1980	85.6
1981	83.4
1982	81.0
1983	81.1
1984	77.2
1985	73.2
1986	72.0
1987	75.4

Forecast	MAY/88	SEPT/88
1988	79.6	80.5
1989	79.0	80.0
1990	78.0	79.0
1991	78.0	78.0
1992	78.0	78.0

The dollar has declined more than two cents from its high value above 83 cents as a result of an easier Bank of Canada monetary policy and political uncertainty about the Canada-US Free Trade Agreement and the outcome of the federal election. While a decline was expected, the actual degree of slippage has been less than would have been predicted, given the adverse political developments. The dollar is expected to decline further to a value of about 80 US cents in 1989, but there is a potential for considerable volatility around that trend depending on how the markets assess the outcome of the election.

At 81 cents, the Canadian dollar is probably overvalued by about 3 cents. Compared to the experience of foreign exchange volatility, this is quite a small overvaluation, and the forces of supply and demand in international merchandise trade would not quickly reverse it. As the recent highly publicized experience of the US trade deficit illustrates, international trade flows respond relatively slowly to changes in exchange rates, because of

established trading relationships and the difficulty of finding alternative sources for some types of goods. This is obviously the case with Canada's automotive industry (our largest export item), where some Canadian plants serve the entire North American market for a model of car. In this instance, it would take years before a manufacturer would retool his plants to move production out of Canada in response to an exchange rate change. When a currency becomes overvalued, the trade balance can even improve temporarily because of it (the J-curve effect), since a relatively unchanged volume of exports is being sold at a higher price to foreign customers.

The main factor in determining how long the Canadian dollar can retain its high value is the duration of international investors' interest in the Canadian economy, which currently has some speculative overtones. We certainly cannot rule out the possibility that the Canadian dollar would remain significantly overvalued for a period of one or two years. In fact, the Canadian dollar was significantly overvalued for three years in the 1975 to 1977 period. However, that was due to a long period of unusually heavy foreign borrowing by Canadian electric utilities, and due to the time lag in the exchange rate's adjustment to higher inflation. In the current situation, the Canada-US Free Trade Agreement (FTA) seems to be prompting an increase in long-term direct investment in Canada. It is reasonable to believe that some element of this may represent a permanent increase in the rate of capital inflows, but it would not appear that the FTA has the potential to raise the sustainable rate of inflows significantly above their historical average rate. In the last several years, capital inflows into Canada were well below their average rate, and in consequence the Canadian dollar was undervalued.

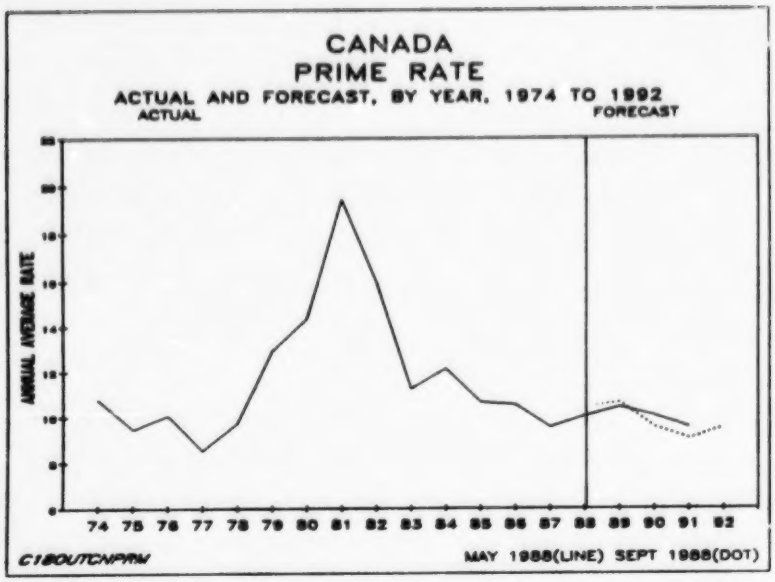
The same point could be made about rising real commodity prices. The increase in commodity prices has helped improve Canada's relative terms of trade, and have also helped raise the value of the Canadian dollar. While this change has been in a favorable direction, the improvement has been modest. Real commodity prices are still well below their post-1972 average value, and so do not provide support for the Canadian dollar being above its purchasing power parity value.

The markets have taken relatively little notice of the threat of an upcoming election in Canada. The Canadian dollar could drop quickly in the event that the present government is defeated before the free trade legislation is enacted. Opposition Leader John Turner's decision to block the FTA in the senate has

increased the risk of this. The latest Globe/Environics poll, taken in June amidst talk of a fall election, shows that popular support for the FTA is continuing its long downward trend, and it now has slightly more opponents than supporters. Those who indicate strong opposition for the FTA outnumber those who strongly support it by more than two to one. However, if a change in government takes place after the FTA has been enacted, it may have relatively little effect on the exchange rate. A Dukakis win in the United States would partly offset the negative connotations of a minority government in Canada, since the markets view him less favorably than they do Bush. The continuing deficit problems of the United States (and perhaps rising inflation) will also tend to make Canada look relatively good.

The Bank of Canada has come in for some criticism by some commentators who feel that it is being overly concerned about the risk of inflation and is maintaining excessively high interest rates, while others have credited the Bank with reviving confidence in the Canadian dollar. However, the "tough" reputation of Bank of Canada Governor John Crow may be slightly exaggerated. He has merely kept the nominal differential between Canadian and US interests rates at about the same level as he found them when he became governor. The rise in the Canada-US real (inflation adjusted) interest differential is probably more fortuitous than deliberate, since it occurred due to a rise in the US inflation rate rather than a decline in the Canadian inflation rate. The most noteworthy aspect of Mr. Crow's policy is that he maintained the interest differential in spite of the Canadian dollar's rise. However, this was not politically difficult in an environment where Canada led most of the western world in economic growth.

The short-term real interest rate in Canada (the interest rate minus the rate of inflation) is currently about 1.7 percentage points higher than in the United States. This is a bit higher than the average differential of 1.25 percent prevailing in the past ten years, but hardly a dramatic difference. In spite of the high level of the Canadian dollar, the Bank of Canada apparently feels that borrowing in the Canadian economy (and the risk of future inflation) is too strong to justify a significant reduction in interest rates. Recent studies indicate that the largest part of the Canada-US interest differential is determined by international investors' perceptions of the risk of the Canadian dollar's volatility. The Bank of Canada's policy mainly influences Canadian inflation and has relatively little effect on Canadian real interest rates.

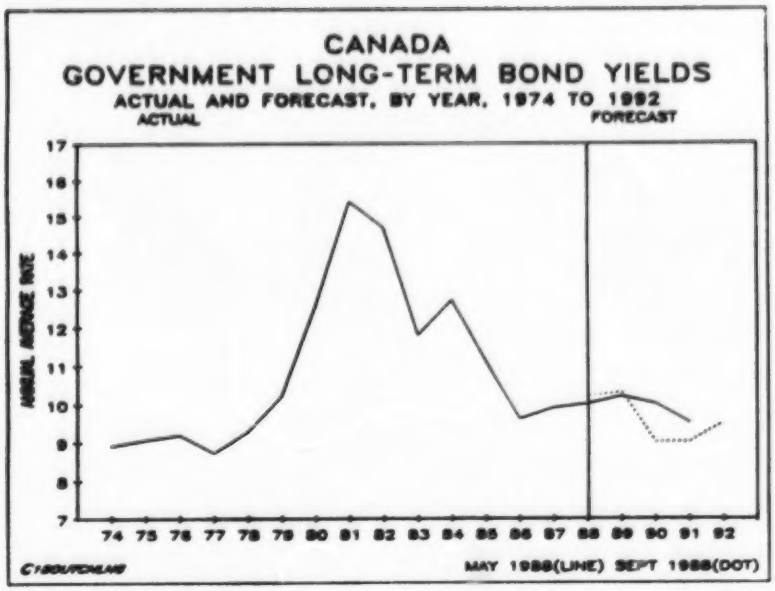

CANADA
PRIME RATE
ACTUAL AND FORECAST, BY YEAR, 1974 TO 1992
ACTUAL
FORECAST
ANNUAL AVERAGE RATE
74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92
C1BOUTCNPRN
MAY 1988(LINE) SEPT 1988(DOT)

Prime Interest Rate

Actual	%
1974	10.75
1975	9.42
1976	10.04
1977	8.50
1978	9.69
1979	12.90
1980	14.32
1981	19.40
1982	15.95
1983	11.22
1984	12.10
1985	10.60
1986	10.50
1987	9.50

Forecast	MAY/88	SEPT/88
1988	10.0	10.5
1989	10.2	11.0
1990	10.0	9.5
1991	9.5	9.0
1992		9.5

In fact, the Bank of Canada has very little control over real interest rates in Canada, because Canadian and US capital markets are so closely linked. (Numerous studies have found that this link is much closer between Canadian and US interest rates than between those of the United States and the other industrial countries.) The Bank of Canada's monetary policy can affect the inflation differential between Canada and the United States, and therefore make market interest rates appear to change, but the underlying real interest rates (net of expected inflation) are not significantly affected. Unfortunately, this means that Canada is a full partner in the problems caused by the US government deficit. Even if Canada's government deficit had been small, we would still be paying high real interest rates due to the weight of high US debt levels. Prospects are that this pressure will only ease slowly, and real interest rates will remain high for at least the next several years.



Canadian Government
Long-Term Bond Rate

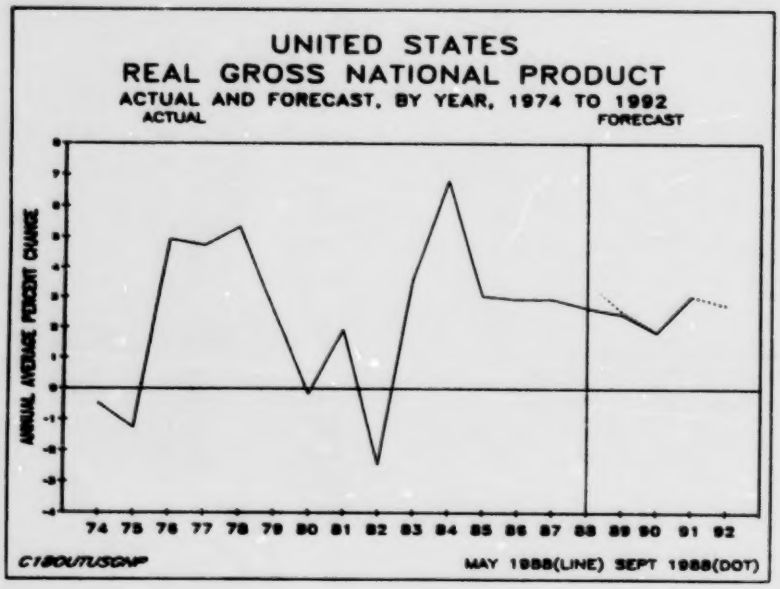
Actual	%
1974	8.90
1975	9.04
1976	9.18
1977	8.70
1978	9.27
1979	10.21
1980	12.57
1981	15.39
1982	14.64
1983	11.77
1984	12.75
1985	11.10
1986	9.60
1987	9.90

Forecast	MAY/88	SEPT/88
1988	10.0	10.3
1989	10.2	10.4
1990	10.0	9.0
1991	9.5	9.0
1992		9.5

4.0 INTERNATIONAL

4.1 United States

4.1.1 Economic Growth


UNITED STATES
REAL GROSS NATIONAL PRODUCT
ACTUAL AND FORECAST, BY YEAR, 1974 TO 1992
ACTUAL
FORECAST
ANNUAL AVERAGE PERCENT CHANGE
74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92
C1BOUTUSGNP
MAY 1988(LINE) SEPT 1988(DOT)

Actual	% Change
1974	-0.5
1975	-1.2
1976	4.9
1977	4.7
1978	5.3
1979	2.5
1980	-0.2
1981	1.9
1982	-2.6
1983	3.6
1984	6.8
1985	3.0
1986	2.9
1987	2.9

Forecast	MAY/88	SEPT/88
1988	2.6	3.5
1989	2.4	2.5
1990	1.8	1.8
1991	3.0	3.0
1992		2.7

The economy has entered its sixth year of expansion since the last recession, an abnormally long period of uninterrupted growth. While a recession does not yet appear imminent, the typical harbingers of a normal business cycle downturn are becoming more visible. Capacity utilization rates have risen to relatively high levels, inducing a new round of capital spending. Inflation concerns are also beginning to mount, suggesting that monetary policy will continue to be tightened. Higher interest rates, whether caused by rising capital spending or tighter monetary policy, lead to a temporary cyclical decline in consumer spending. The consumer sector is by far the largest in the economy, representing about 65% of economic activity in an average year. Over the next year or so sluggish consumption will be outweighed by an improvement in net exports but towards the end of 1989 the economy could be noticeably weaker. There is also a

risk of tax increases after the November 1988 election. While the forecast recognizes these encroaching threats with a damped-down economic growth pattern for 1989 to 1990, it is premature to forecast a full-scale recession. An economy still riddled with debt and government deficit problems is too fragile to bear a normal cyclical downturn; if the beginnings of such a downturn were experienced, monetary policy would probably be loosened relatively quickly to abort a recession.

So far during 1988 consumption has held up better than expected. While some consumers may be constrained by a low savings rate, high debt levels and rising interest rates, others can borrow more because of higher asset values (bonds, stocks, real estate). Job creation continues to be surprisingly strong: most new jobs have been in the service sector, but manufacturing jobs have also recovered because of the depreciation of the dollar and stronger economic growth in some foreign countries. Higher commodity prices have also aided some parts of the economy and are probably contributing to an increase in inventory growth because of price speculation. The latter type of growth will eventually have to be unwound and serves to make swings in economic growth more pronounced. As interest rates move higher over the next year, expect consumption to become more subdued. Tax increases may also weaken the economy.

The net export sector has been a key source of growth over the last year or so and improvement should continue during 1989. However, towards the end of next year this sector will be contributing at a much slower rate as the impact of the dollar's devaluation wears off and the more recent upswing of the dollar takes effect. Imports will probably shrink, however, when the economy weakens.

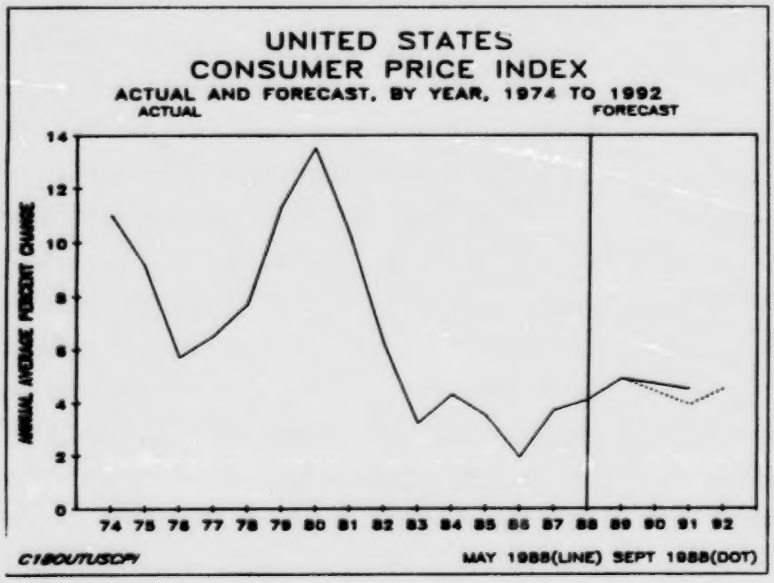
Business investment is another significant growth area at the moment. Capital spending plans have been revised up with each new survey and there are some signs that the focus is shifting from upgrading machinery and equipment to expanding plant size (a more capital-intensive endeavour). Some of this is the result of the depreciated dollar spurring exports and retarding imports; however, the recent (June-July) rise of the dollar may cause some of these plans to be put on hold. Office space and apartment buildings remain overbuilt in most locations, largely because of the previous set of tax laws. Energy-related investment was beginning to show some signs of life, at least before the latest oil price decline.

The federal government deficit is drifting up from fiscal 1987s $148 billion. The 1987 figure was a major improvement on the prior year's $220

billion shortfall, but much of the gain came from a one-time windfall when the tax system was altered. For 1988, thanks to a strong economy, the deficit is likely to be near $155 billion. The picture is not gloomy, however. On a trend basis, the deficit is declining relative to GNP.

More significantly, efforts to reduce the red ink have not been abandoned (except temporarily so as not to discourage voters this year). Whoever wins the election is likely to raise taxes, although the form of tax increase favoured differs between the political camps.

4.1.2 Inflation



Actual	% Change
1974	11.0
1975	9.1
1976	5.8
1977	6.5
1978	7.7
1979	11.3
1980	13.5
1981	10.4
1982	6.1
1983	3.2
1984	4.3
1985	3.6
1986	1.9
1987	3.7

Forecast	MAY/88	SEPT/88
1988	4.1	4.1
1989	4.9	4.9
1990	4.7	4.4
1991	4.5	3.9
1992		4.5

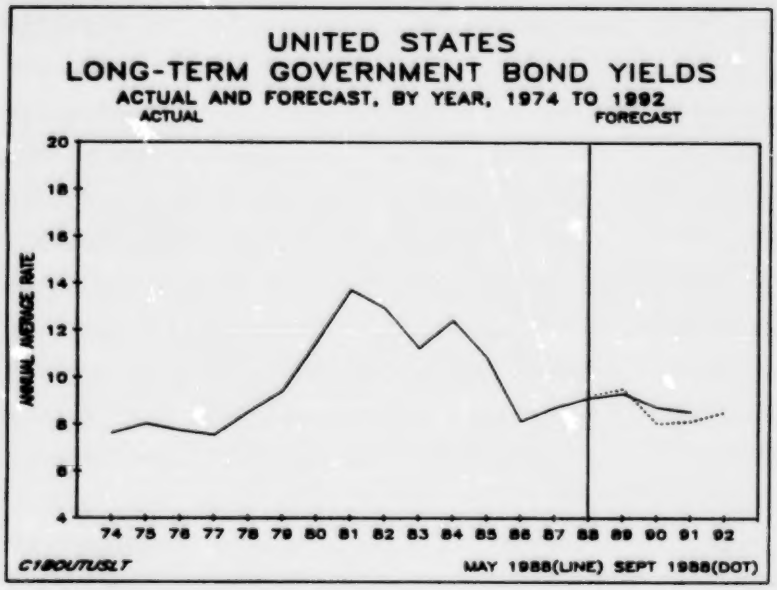
Fears of rising inflation have been heightened by drought, rising industrial commodity prices and lower than expected unemployment rates accompanied by accelerating rates of wage gain. Higher capacity utilization rates (which make it easier to raise prices) and the effect of a depreciated currency on import prices are also a source of concern. While inflation is expected to rise to around 5% for a year or so, some of these fears seem overdone.

Central banks are much more vigilant these days and quick to raise interest rates to moderate demand. Food and commodity prices play a relatively small

role by themselves and if oil prices continue weak and the dollar strong, there will be some offsets. Wages are a far more significant cost factor in most goods and services. While wage gains have begun to accelerate, they are still lagging well behind inflation. The unionized sector in particular remains more concerned with job security than pay increases. With the cost of capital still high relative to inflation, employers are very reluctant to let wage increases get out of hand. However, since productivity appears to have improved (relative to the 1970s), some wage gains can be accepted without a corresponding rise in unit labour costs. Eventually, as labour becomes even scarcer relative to capital and productivity rises further (assuming the capital to labour ratio rises) it would be logical to expect wage increases to accelerate (especially in real terms) while capital becomes relatively cheaper.

As for the immediate future, money supply growth over the past year has been very subdued, suggesting that inflation much beyond 5% would be difficult to sustain unless money velocity accelerates (unlikely). Inflation is likely to reach a cyclical peak in 1989 and then decline as the economy weakens. One factor, much more important to the United States than Canada, remains difficult to quantify however. The Federal Reserve Board's first priority is not to contain inflation but to preserve the health of the banking system which is shaky on several counts. Regional banks, most notably those in oil-producing states but also some that rely on agricultural loans, are under serious pressure because of bad commodity-price-related and real estate loans. Many savings and loan associations are technically insolvent (either because of real estate problems or mismanagement) and the large money centre banks are under pressure because of problems with foreign borrowers. While many of these continue to increase their reserves against possible future loan losses some large banks are having trouble doing so or are having difficulty raising new capital. While it is not clear that a future bail-out need be inflationary, it will certainly be tempting to suppress interest rates to avoid worsening the problems. This could cause inflation to rebound for more than merely cyclical reasons.

4.1.3 Interest Rates



Actual	%
1974	7.6
1975	8.0
1976	7.7
1977	7.5
1978	8.5
1979	9.4
1980	11.5
1981	13.7
1982	12.9
1983	11.2
1984	12.4
1985	10.8
1986	8.1
1987	8.7

Forecast	MAY/88	SEPT/88
1988	9.1	9.2
1989	9.3	9.5
1990	8.7	8.0
1991	8.5	8.1
1992		8.5

Interest rates are expected to continue to rise into 1989 because of central bank efforts to curb money supply growth (to dampen inflation) and because of a rising demand for funds for capital spending. This cyclical rise in interest rates is not expected to be pronounced for a variety of reasons, so we are not forecasting a full-fledged recession.

One reason for not expecting a dramatic rise in rates is that monetary policy has been relatively tight since late 1987 (high real interest rates and low rates of money supply growth). Consequently, a major tightening because of higher inflation does not appear necessary. Furthermore, if the recent strength of the US dollar continues, capital spending may not accelerate much further as some of the potential plant expansion may no longer appear economic. Continued dollar strength would also attract relatively more foreign capital at a given level of interest rates. Whoever is elected in November will likely reduce the government deficit, reducing demand for funds (temporarily at least) and allowing a relatively lower level of interest rates than otherwise. Finally, concern for the health of the banking system is apt to prevent an overzealous increase in

interest rates: this may have been the ultimate legacy of last October's stock market crash.

With a slower economy and expectations of a lower government deficit, interest rates are expected to begin declining in the second half of 1989.

4.2 Foreign Currencies and the US Dollar

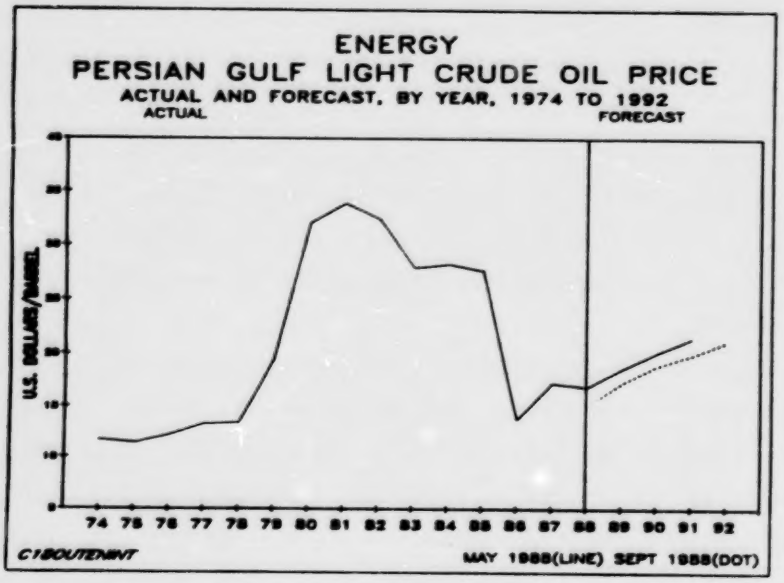
In the early 1980s the United States experienced a shortfall of savings. This was covered by an inflow of private foreign capital, attracted by high interest rates and, to a lesser extent, by good investment prospects. During this period the dollar soared. Over much of the past two years, concerns about mounting trade and budget deficits as well as lower interest rates meant that private capital inflows dwindled. The shortfall was covered by foreign central banks but only reluctantly. The dollar plunged.

In recent months the dollar's fortunes have reversed again. The trade deficit has improved beyond expectation (the current account which includes interest and dividend payments abroad remains very high however) and interest rates have risen. Private capital, apparently less concerned that the dollar's decline might resume, has poured back in, buoying the dollar in the process. A continued reduction of the trade deficit and rising interest rates will probably raise the dollar for another year or two; slower domestic economic growth, hence lower imports, is expected to be a factor.

The expected improvement in the dollar is probably just a brief transitory phase unlikely to last beyond 1990. Then the downward trend will resume unless the United States is able to reduce its inflation rates as low as Switzerland, Germany and Japan. (Of course, it may have less trouble matching Canada and Britain.) Progress in reducing the trade and budget deficits will eventually help stabilize the dollar, but worries about the size of the relatively intractable current account deficit will likely emerge within two years and could cut short the expected rise of the dollar.

5.0 ENERGY

5.1 International Crude Oil


ENERGY
PERSIAN GULF LIGHT CRUDE OIL PRICE
ACTUAL AND FORECAST, BY YEAR, 1974 TO 1992
ACTUAL
FORECAST
U.S. DOLLARS/BARREL
74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92
C1BOUTENINT
MAY 1988(LINE) SEPT 1988(DOT)

Actual	Persian Gulf Light Crude FOB US$ Per Barrel
1974	11.61
1975	11.30
1976	12.08
1977	13.18
1978	13.31
1979	19.45
1980	31.96
1981	33.80
1982	32.30
1983	27.80
1984	28.16
1985	27.52
1986	13.64
1987	17.20

Forecast	MAY/88	SEPT/88
1988	16.80	15.00
1989	18.50	17.20
1990	20.00	18.75
1991	21.00	19.75
1992	22.40	21.00

The structure of the international oil market and its short-term problems have remained almost unchanged since the 1986 oil price collapse. OPEC's ability to control its production and flexibility to adjust output when markets are soft has remained the most important determinant of price stability in the near term. With non-OPEC producers pumping at close to full capacity, OPEC's task is to balance supply with the remaining demand. The cartel currently has substantial shut-in capacity. Given the deep divisions within OPEC and only moderate improvements in market fundamentals, the international oil market has remained volatile during the last few quarters. Some of the major developments are summarized below:

- OPEC operates under a year and a half old agreement signed in December 1986. Twelve of the thirteen OPEC members agreed to limit total production to 15.06 million barrels per day (mmbd). Iraq refused to sign the deal, demanding the same quota as Iran and has

been maintaining its production at around 2.5 mmbd, bringing the effective quota to at least 17.5 mmbd. In this agreement OPEC set the official price at around US$18 per barrel.

- Since December 1986, OPEC extended the overall quota several times, most recently in June 1988 for the remainder of 1988. Originally, the quotas were designed to support oil prices at US$18 per barrel, but oil prices have been hovering $1-$5 below that level. It seems that OPEC is currently more concerned with maintaining its market share and meeting its volume objectives than with defending its official price.

- Oil prices have remained under strong downward pressure and declined from the US$17 to US$18 per barrel range for Persian Gulf Light in July 1987 to as low as US$12.50 in July 1988.

- In the first half of 1987, OPEC production exceeded the quota only marginally and prices were relatively stable. In the last quarter of 1987 and in the second quarter of 1988 the cartel overproduced by about 2 and 1 mmbd, respectively, and prices were under strong downward pressure.

- In July 1988, Iran accepted a ceasefire in its eight-year war with Iraq. That surprising decision is viewed by some analysts as good news for the market. The ending of the war may help improve harmony among OPEC members and help cut excess output. However, the situation in the Middle East remains very complex and the end of the war does not eliminate the uncertainty that region poses for the oil market.

- Petroleum consumption in OECD countries increased 2.6% in 1986 and a further 1% in 1987. According to the International Energy Agency, OECD consumption in the first quarter of 1988 was 2% higher than in the first quarter of last year.

This short-term forecast is based on the following assumptions:

- Demand for OPEC oil is expected to average 18.5 mmbd in the second half of 1988 and increase gradually to 19.2 mmbd by 1990.

- Total world demand is expected to increase at an annual average rate of about 1.2% and reach 57.6 mmbd by 1990. Non-OPEC production is expected to gain another 0.5 mmbd by 1990.

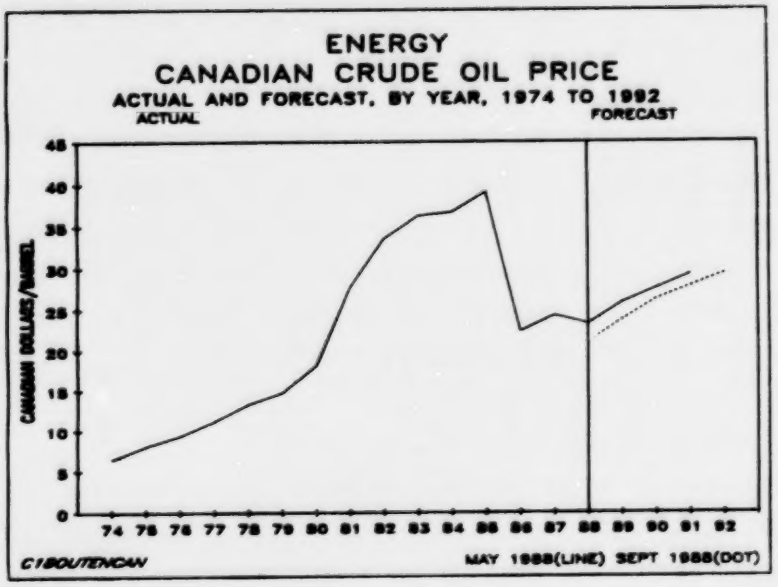
- In the second half of this year prices are projected to firm up slightly as a result of: stronger demand for OPEC oil, elimination of 0.3 mmbd of North Sea production due to the Piper Field

accident, expected strike by Norwegian rig workers, planned further discussions with non-OPEC producers and relative discipline by OPEC.

- OPEC is expected to have continuing problems with allocating production quotas among its members but its output is projected to be close to effective demand for its oil. With expected demand for the cartel's oil at around 18.5 mmbd prices could be significantly higher than the current level of around US$14 to US$15 if the existing official quota (including Iraq) of 17.5 mmbd is observed. However, OPEC is expected to meet demand (if not exceed it) rather than underproduce and prices are projected to remain below US$18 per barrel.

- Persian Gulf Light oil is expected to average US$15.00 in 1988 and $17.20 next year. The market is expected to remain volatile and considerable fluctuations in both directions are possible. Real world oil prices are projected to return to the 1987 level of US$17.90 (in 1988$) in early 1990.

5.2 Canadian Crude Oil



Actual	Ontario Refineries Acquisition Cost*
1974	6.46
1975	8.04
1976	9.30
1977	11.07
1978	13.24
1979	14.68
1980	18.07
1981	27.66
1982	33.46
1983	36.18
1984	36.64
1985	38.47
1986	22.44
1987	24.25

Forecast	MAY/88	SEPT/88
1988	23.25	21.00
1989	25.80	23.75
1990	27.50	26.20
1991	29.20	27.75
1992	31.00	29.30

*1974-1984, prices at Toronto after 1984, refineries acquisition cost at Sarnia.

The domestic oil industry now operates in a deregulated environment and prices for domestic crude have been influenced by international prices since 1985. Some selected information on the domestic crude oil market and pricing is highlighted below:

- Canadian crude prices have been fluctuating quite closely with international crude oil on international markets traded in US dollars. The posted prices in Edmonton have been set primarily relative to the spot prices at Chicago adjusted for quality differentials, exchange rate and transportation costs.

- Canadian oil prices (light crude posted at Edmonton) fell more than 57% from $35.70/bbl in December 1985 to about $15.30 in July 1986, rebounded to $27 in July/August 1987 only to decline again to below $20 in early 1988.

- Ontario Refiners' Acquisition Cost (ORAC) of crude oil reflects those

posted prices with some lag but generally has shown the same trend. ORAC declined to as low as $17.60 per barrel in August 1986, increased to around $26/bbl in August/September 1987 and declined again to $20/bbl in the first quarter of 1988.

- In 1987, domestic crude oil production exceeded 1.62 mmbd, an increase of about 4% from the 1986 level. Light crude oil accounted for about 60%, heavy oil for 27% with the rest coming from synthetic crude.

- According to Alberta's Energy Resources Conservation Board (ERCB), the 1987 additions to oil reserves were the lowest in the last five years. Alberta's conventional oil reserves continued to be drawn down in 1987, with production exceeding additions.

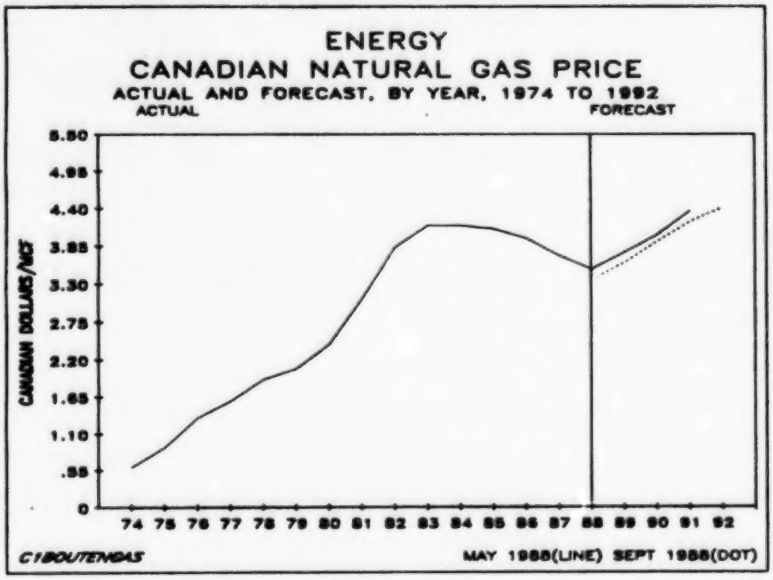
- In 1987, Canada exported over 600,000 barrels per day (60% heavy crude) and imported about 400,000 barrels per day. Canada has remained a net exporter of crude since 1982.

This short-term forecast is based on the following assumptions:

- The posted prices in Alberta will continue to follow international oil prices and especially West Texas Intermediate (WTI) crude at Chicago subject to exchange rate and transportation cost adjustments.

- Lower international oil prices and the upward revision of the Canadian dollar resulted in lower domestic oil price projections. ORAC is projected to average about $21/bbl in 1988 and move up to $26/bbl (in nominal terms) by 1990. However, domestic oil prices are projected to stay, in real terms, below the 1987 level of $25.30 (in 1988$) until the mid-1990s.

5.3 Canadian Natural Gas



Actual	Price at Toronto City Gate Cdn$ per Mcf
1974	0.59
1975	0.89
1976	1.33
1977	1.58
1978	1.90
1979	2.06
1980	2.42
1981	3.08
1982	3.82
1983	4.14
1984	4.14
1985	4.09
1986	3.95
1987	3.70

Forecast	MAY/88	SEPT/88
1988	3.50	3.35
1989	3.75	3.60
1990	4.00	3.90
1991	4.30	4.20
1992	4.60	4.40

Deregulation of the natural gas market has brought about substantial changes in the way the market operates and natural gas is priced. The current system is dominated by two major developments: an agreement between Western Gas Marketing (WGM) and the regional distributors to serve the so-called "core-market" (residential and majority of commercial buyers), and direct purchases, buy/sell arrangements (by relatively small groups of large industrial/commercial users). The natural gas pricing system has become very complex and actual price levels are difficult to estimate (most direct purchases are confidential and gas utility discounts are difficult to estimate). Recent developments in the natural gas market are summarized below:

- In early 1988, the Ontario Energy Board (OEB) approved a new agreement, for the 1988 gas year, between Western Gas Marketing (WGM) and the local distributors. According to this agreement most utility customers (including core-market) will pay less for natural gas.

- The OEB recommended elimination of Competitive Marketing Programs by the end of the year. WGM and local

distributors are expected to introduce new programs to help compete with direct purchases.

- Retail prices for industrial customers in 1987 were down between 20% (utility sales) and 35% (direct sales and buy/sell deals) from their 1985 levels. The industrial customers are the major beneficiaries of the new system while residential and commercial customers now pay about 8% to 13% less than in 1985.

- The market is still dominated by the regional gas utilities -- they sold approximately 88% of industrial gas in Ontario in 1987; the rest was sold in direct deals. According to some estimates, in the first half of 1988, gas sold through direct purchases and buy/sell arrangements accounted for at least 20% of total industrial gas sales in Ontario.

- In the winter season, the Nova gas pipeline system in Alberta and the TransCanada pipeline system operated at capacity and for short periods of time shipments of interruptible gas were curtailed. Both companies have received approval from their regulatory bodies to expand their pipeline system.

- According to Alberta's Energy Resources Conservation Board, drilling for natural gas continued at a very low level in 1987 due to low prices and oversupply on the market. At the same time, production of gas increased by about 8% over 1986, returning to the record level of 1985, but remaining below productive capacity. However, in 1987 and for the fifth consecutive year, gas production substantially exceeded additions to gas reserves in Alberta. In 1987 the gap was a record.

- According to the Canadian Energy Research Institute the cost of finding natural gas in Alberta has nearly tripled since 1985.

- Exports of natural gas to the United States increased by over 33% in 1987 to 990 Bcf, the highest level in over seven years. Canada's share of the US gas market increased to 5.9% in 1987 from 4.6% in 1986.

- Spot prices in Alberta have remained relatively steady at around $1.00/Mcf during 1988 but they are slightly lower than the average for 1987. Direct sales gas prices at the Alberta border have also remained steady at around $1.45/Mcf and only slightly lower than last year. Direct sale end-use prices in Ontario were in the $2.70 to $2.90/Mcf range in the first

half of 1988 down from the prevailing range of $2.90 to $3.20/Mcf in 1987.

The short-term natural gas price forecast is based on the following assumptions:

- The supply agreement between WGM and Ontario gas utilities, competition with weak oil prices and continuing gas-to-gas competition will result in lower gas prices for all customers in 1988. Retail gas prices are expected to decline in nominal terms for the third consecutive year by another 3% to 6% on average. Industrial customers and some commercial users will buy gas with even larger discounts through direct purchases and buy/sell arrangements. The average industrial cost of gas bought directly from Alberta is expected to be below $3/Mcf in 1988. Industrial gas delivered by local gas distributors is projected to be about 20% higher but larger discounts offered by gas utilities could narrow that gap.

- According to the ERCB the oversupply of natural gas in the United States, which combined with lower oil prices resulted in a substantial reduction of gas prices, is now beginning to diminish. The Board believes that this will result in higher prices for Alberta's exports over the next several years.

- The weighted average wholesale price at Toronto is projected to be around $3.35/Mcf in 1988. This is about 9% lower than the average for 1987 and 4.3% lower than projected in our last forecast.

- After 1988, stronger oil prices and increasing demand for Canadian gas (both for domestic and export markets) are expected to push gas prices to about $3.90/Mcf (in nominal terms) by 1990 and to $4.40 by 1992. However, wholesale gas prices are expected to stay almost constant in real terms in the short term.

APPENDIX A

DATA

Table A.1 Historical and Forecast Data - Rates and Percentage Changes

	Real GDP (1)			Consumer Price Index (1)			Population (1)		Labour Force (1)		Employment (1)		Unemployment Rate (2)		Labour Productivity (1)	
Year	U.S.	Can.	Ont.	U.S.	Can.	Ont.	Can.	Ont.	Can.	Ont.	Can.	Ont.	Can.	Ont.	Can.	Ont.
1964	5.34	6.67	7.29	1.28	1.82	N/A	1.89	2.28	2.75	3.26	3.64	3.85	4.4	3.2	2.92	3.31
1965	5.79	6.60	6.30	1.59	2.46	N/A	1.85	2.35	2.94	2.26	3.77	3.02	3.6	2.5	2.73	3.19
1966	5.79	6.79	6.87	3.02	3.73	N/A	1.85	2.52	3.93	6.16	4.19	6.10	3.3	2.5	2.50	0.72
1967	2.85	2.93	4.33	2.80	3.64	N/A	1.83	2.42	3.40	3.75	2.88	3.13	3.8	3.2	0.05	1.16
1968	4.15	5.35	6.57	4.30	4.02	N/A	1.61	1.91	2.60	3.07	1.90	2.64	4.5	3.6	3.39	3.83
1969	2.44	5.35	5.74	5.46	4.50	N/A	1.46	1.75	3.11	3.27	3.17	3.69	4.4	3.2	2.12	1.97
1970	-0.29	2.60	2.21	5.81	3.38	N/A	1.40	2.22	2.51	3.23	1.11	1.98	5.7	4.4	1.47	0.22
1971	2.84	5.76	5.88	4.31	2.80	N/A	1.28	1.99	2.82	3.58	2.30	2.47	6.2	5.4	3.38	3.33
1972	4.98	5.73	6.58	3.27	4.82	N/A	1.08	1.39	3.02	3.63	2.97	4.05	6.2	5.0	2.68	2.43
1973	5.19	7.71	6.02	6.14	7.61	N/A	1.13	1.35	4.21	3.59	4.98	4.35	5.6	4.3	2.60	1.59
1974	-0.54	4.40	2.18	11.06	10.89	N/A	1.44	1.73	3.95	4.36	4.17	4.23	5.3	4.4	0.22	-1.97
1975	-1.26	2.60	0.62	9.20	10.79	N/A	1.48	1.48	3.47	3.58	1.73	1.50	6.9	6.4	0.86	-0.88
1976	4.89	6.16	5.64	5.76	7.52	7.61	1.31	1.16	2.33	1.68	2.11	1.87	7.1	6.2	3.97	3.70
1977	4.67	3.61	1.93	6.47	8.01	7.86	1.19	1.07	2.90	2.69	1.82	1.78	8.1	7.0	1.76	0.14
1978	5.29	4.57	2.83	7.62	8.90	8.45	1.05	1.02	3.73	3.67	3.46	3.43	8.3	7.2	1.07	-0.58
1979	2.48	3.87	2.70	11.27	9.15	9.01	1.00	0.75	3.07	3.35	4.10	4.12	7.4	6.5	-0.22	-1.36
1980	-0.16	1.48	-0.32	13.54	10.17	9.99	1.23	0.78	3.07	1.85	3.02	1.50	7.4	6.8	-1.49	-1.80
1981	1.93	3.67	3.41	10.32	12.47	12.11	1.23	0.67	2.87	2.60	2.77	2.91	7.5	6.6	0.87	0.48
1982	-2.55	-3.22	-4.16	6.15	10.79	10.70	1.01	0.90	0.58	0.99	-3.25	-2.49	11.1	9.8	0.04	-1.71
1983	3.57	3.16	5.34	3.17	5.82	6.23	0.84	1.10	1.69	1.37	0.78	0.71	11.9	10.4	2.37	4.59
1984	6.78	6.28	8.71	4.31	4.34	4.93	0.77	1.21	1.83	2.10	2.51	3.59	11.3	9.1	3.68	4.94
1985	3.03	4.25	5.03	3.55	3.95	4.05	0.76	1.18	1.95	2.50	2.83	3.75	10.5	8.1	1.38	1.24
1986	2.93	3.33	6.21	1.89	4.17	4.28	0.76	1.20	1.82	2.29	2.85	3.48	9.6	7.0	0.46	2.64
1987	2.90	3.85	4.23	3.70	4.37	4.71	1.04	1.68	1.94	2.38	2.75	3.32	8.9	6.1	1.07	0.88
1988	3.50	3.80	3.90	4.10	4.10	4.50	1.00	1.80	1.80	3.10	2.90	3.90	7.7	5.4	0.80	0.00
1989	2.50	2.50	2.70	4.90	4.80	4.80	1.00	1.60	1.90	2.20	1.80	2.70	7.8	5.0	0.70	0.00
1990	1.80	2.10	2.30	4.40	4.50	4.60	0.90	1.50	1.90	2.00	1.70	2.10	8.0	4.9	0.40	0.20
1991	3.00	3.20	3.50	3.90	4.50	4.50	0.90	1.40	1.70	1.90	2.00	2.00	7.8	4.7	1.20	1.50
1992	2.70	3.40	3.80	4.50	4.50	4.50	0.80	1.30	0.80	1.40	1.30	1.90	7.5	4.2	2.10	1.90
1991-1995	2.50	3.20	3.20	4.50	4.20	4.50	0.80	1.10	1.00	1.30	1.40	1.50	7.3	4.1	1.80	1.70
1996-2000	2.50	2.60	2.80	5.00	5.00	5.00	0.70	0.80	0.60	1.00	0.80	1.00	5.3	4.1	1.80	1.90
2001-2005	2.50	2.60	2.40	5.00	5.50	5.50	0.60	0.60	0.60	0.80	0.60	0.90	5.0	3.8	2.00	1.50
2006-2010	2.30	2.10	2.10	5.00	5.00	5.00	0.50	0.50	0.40	0.60	0.40	0.50	5.0	3.8	1.70	1.60
2010-2025	2.00	1.70	1.70	5.00	5.00	5.00	0.40	0.40	0.00	0.00	0.00	0.00	5.0	3.8	1.70	1.70

1. Average Annual Percent Change
2. Percent

Economic Outlook, September 1988

Table A.1 (Cont'd) Historical and Forecast Data - Rates and Percentage Changes

Year	Avg. Hourly Earnings Manufacturing (1) Can.	Ont.	Avg. Hourly Earnings Construction (1) Ont.	Treasury Bill Rate Canada(2)	Prime Rate Canada(2)	Prime Rate U.S.(2)	Government Of Canada Intermed. Term(2)	Government Of Canada Long-Term(2)	Canadian Dollar(3)
1964	3.69	4.04	4.00	3.75	5.75	4.50	4.72	5.18	92.71
1965	4.74	5.34	9.62	3.98	5.77	4.53	4.90	5.21	92.77
1966	6.07	5.07	9.65	4.99	6.00	5.63	5.55	5.69	92.82
1967	7.05	6.58	8.80	4.64	5.92	5.63	5.64	5.94	92.70
1968	7.34	7.41	8.09	6.27	6.92	6.28	6.68	6.75	92.81
1969	8.11	8.43	11.90	7.19	7.96	7.95	7.66	7.58	92.87
1970	8.06	8.48	16.11	5.99	8.17	7.91	7.11	7.91	95.81
1971	8.87	8.79	12.04	3.56	6.48	5.72	5.55	6.95	99.03
1972	7.80	7.78	9.58	3.56	6.00	5.25	6.26	7.23	100.95
1973	8.90	8.89	9.59	5.47	7.65	8.02	6.98	7.56	99.99
1974	13.50	11.48	10.89	7.82	10.75	10.80	8.12	8.90	102.25
1975	15.62	14.42	11.58	7.39	9.42	7.86	7.71	9.03	98.33
1976	13.83	13.20	14.15	8.87	10.04	6.84	8.35	9.18	101.42
1977	10.85	10.25	12.12	7.33	8.50	6.82	7.90	8.70	94.09
1978	7.12	6.73	5.53	8.68	9.69	9.06	9.00	9.27	87.71
1979	8.79	8.26	6.64	11.69	12.90	12.67	10.42	10.21	85.37
1980	10.11	9.29	9.61	12.79	14.25	15.27	12.37	12.48	85.53
1981	12.00	11.68	10.96	17.72	19.29	18.87	15.68	15.22	83.41
1982	11.75	11.36	8.35	13.63	15.81	14.86	14.00	14.26	81.07
1983	7.08	6.94	6.46	9.31	11.17	10.79	10.61	11.79	81.14
1984	5.87	6.57	1.50	11.06	12.06	12.04	11.91	12.75	77.25
1985	3.86	3.96	3.37	9.43	10.58	9.93	10.39	11.04	73.24
1986	3.14	4.28	3.49	8.97	10.52	8.33	9.21	9.52	71.97
1987	2.43	3.70	7.00	8.15	9.52	8.20	9.42	9.95	75.42
1988	4.50	5.50	4.50	9.20	10.50	9.30	9.70	10.30	80.50
1989	5.00	5.00	5.00	9.70	11.00	10.10	9.90	10.40	80.00
1990	5.00	5.00	5.00	9.10	9.50	8.40	8.50	9.00	79.00
1991	5.00	5.00	5.00	8.10	9.00	7.90	8.50	9.00	78.00
1992	5.00	5.00	5.00	8.50	9.50	8.30	9.00	9.50	78.00
1991-1995	5.00	5.80	5.80	8.20	9.00	8.40	9.00	9.20	79.00
1996-2000	5.90	6.00	5.90	8.20	9.00	8.50	9.00	9.50	80.00
2001-2005	7.00	7.00	7.00	8.10	9.00	8.00	9.00	9.50	78.00
2006-2010	7.00	7.00	7.00	7.60	8.50	7.80	8.50	9.00	77.00
2010-2025	6.50	6.50	6.50	7.10	8.00	7.50	8.00	8.50	75.00

1. Average Annual Percent Change
2. Percent
3. U.S. Cents

Economic Outlook, September 1988

Table A.2 Historical and Forecast Data - Levels and Indexes

Year	Real GDP			Consumer Price Index			Population (5)		Labour Force (5		Employment (5)		Labour Productivity (6)		Avg. Hourly Earnings Manufctrng (7)		Avg. Hourly Earnings Cnstructn (7)
	U.S.(1)	Can.(2)	Ont.(2)	U.S.(3)	Can.(4)	Ont.(4)	Can.	Ont.	Can.	Ont.	Can.	Ont.	Can.	Ont.	Can.	Ont.	Ont.
1964	1,973	164,504	66,997	31.0	33.2	N/A	19,277	6,627	7,003	2,567	6,699	2,483	24,556	26,982	2.02	2.06	2.08
1965	2,088	175,359	71,220	31.5	34.0	N/A	19,634	6,783	7,209	2,625	6,951	2,558	25,227	27,842	2.12	2.17	2.28
1966	2,208	187,263	76,110	32.5	35.2	N/A	19,998	6,954	7,492	2,787	7,242	2,714	25,857	28,043	2.25	2.28	2.50
1967	2,271	192,752	79,405	33.4	36.5	N/A	20,364	7,122	7,747	2,891	7,451	2,799	25,871	28,369	2.40	2.43	2.72
1968	2,366	203,072	84,625	34.8	38.0	N/A	20,692	7,258	7,948	2,980	7,592	2,873	26,747	29,455	2.58	2.61	2.94
1969	2,423	213,946	89,479	36.7	39.7	N/A	20,994	7,385	8,195	3,077	7,833	2,979	27,313	30,037	2.79	2.83	3.29
1970	2,416	219,498	91,456	38.8	41.0	N/A	21,288	7,549	8,401	3,177	7,920	3,038	27,713	30,104	3.02	3.07	3.82
1971	2,485	232,137	96,835	40.5	42.2	N/A	21,559	7,699	8,637	3,290	8,103	3,113	28,649	31,107	3.28	3.34	4.28
1972	2,609	245,441	103,203	41.8	44.2	N/A	21,793	7,806	8,898	3,410	8,344	3,239	29,417	31,863	3.54	3.60	4.69
1973	2,744	264,369	109,411	44.4	47.6	N/A	22,040	7,911	9,273	3,532	8,759	3,380	30,182	32,370	3.85	3.92	5.14
1974	2,729	276,006	111,795	49.3	52.8	N/A	22,357	8,048	9,639	3,686	9,125	3,523	30,249	31,733	4.37	4.37	5.70
1975	2,695	283,187	112,483	53.8	58.5	59.1	22,688	8,167	9,973	3,818	9,283	3,576	30,508	31,455	5.06	5.00	6.36
1976	2,827	300,638	118,827	56.9	62.9	63.6	22,985	8,262	10,206	3,882	9,479	3,643	31,718	32,618	5.76	5.66	7.26
1977	2,959	311,504	121,117	60.6	67.9	68.6	23,260	8,350	10,502	3,987	9,651	3,708	32,276	32,664	6.38	6.24	8.14
1978	3,115	325,751	124,539	65.2	73.9	74.4	23,503	8,435	10,894	4,133	9,986	3,835	32,622	32,474	6.84	6.66	8.59
1979	3,192	338,362	127,901	72.6	80.7	81.1	23,738	8,498	11,228	4,271	10,395	3,993	32,551	32,031	7.44	7.21	9.16
1980	3,187	343,384	127,486	82.4	88.9	89.2	24,030	8,564	11,572	4,350	10,709	4,053	32,066	31,455	8.19	7.88	10.04
1981	3,249	355,994	131,831	90.9	100.0	100.0	24,325	8,621	11,904	4,464	11,006	4,171	32,346	31,607	9.17	8.80	11.14
1982	3,166	344,543	126,352	96.5	110.8	110.7	24,571	8,699	11,974	4,508	10,648	4,067	32,357	31,068	10.25	9.80	12.07
1983	3,279	355,445	133,096	99.6	117.2	117.6	24,778	8,795	12,176	4,570	10,731	4,096	33,124	32,494	10.97	10.48	12.85
1984	3,501	377,755	144,686	103.9	122.3	123.4	24,970	8,901	12,399	4,666	11,000	4,243	34,342	34,100	11.62	11.17	13.04
1985	3,607	393,817	151,970	107.5	127.2	128.4	25,158	9,006	12,640	4,787	11,311	4,402	34,816	34,523	12.06	11.61	13.48
1986	3,713	406,931	161,407	109.6	132.5	133.9	25,350	9,114	12,870	4,897	11,634	4,555	34,977	35,435	12.44	12.11	13.95
1987	3,821	422,602	168,228	113.6	138.2	140.2	25,613	9,267	13,120	5,013	11,954	4,706	35,351	35,748	12.75	12.56	14.93
1988	3,955	438,661	174,789	118.3	143.9	146.5	25,869	9,434	13,356	5,168	12,301	4,890	35,661	35,748	13.32	13.25	15.60
1989	4,054	449,627	179,508	124.1	150.8	153.5	26,128	9,585	13,610	5,282	12,522	5,022	35,906	35,748	13.99	13.91	16.38
1990	4,127	459,070	183,637	129.5	157.6	160.6	26,363	9,729	13,869	5,388	12,735	5,127	36,047	35,818	14.68	14.61	17.20
1991	4,250	473,760	190,064	134.6	164.7	167.8	26,600	9,865	14,104	5,490	12,990	5,230	36,471	36,344	15.42	15.34	18.06
1992	4,365	489,868	197,287	140.6	172.1	175.4	26,813	9,993	14,217	5,567	13,159	5,329	37,227	37,022	16.19	16.11	18.96
1995	4,809	554,570	222,484	167.7	202.3	209.1	27,681	10,419	14,824	5,856	13,925	5,634	39,825	39,492	19.68	20.33	23.94
2000	5,441	630,512	255,426	214.1	258.2	266.9	28,664	10,843	15,274	6,155	14,491	5,921	43,510	43,138	26.21	27.21	31.89
2005	6,156	716,853	287,584	273.2	337.5	348.9	29,534	11,172	15,738	6,405	14,931	6,192	48,011	46,442	36.76	38.17	44.73
2010	6,897	795,351	319,075	348.7	430.7	445.3	30,280	11,454	16,055	6,600	15,232	6,349	52,215	50,258	51.56	53.53	62.73
2025	9,283	1,024,173	410,873	724.9	895.4	925.7	32,148	12,161	16,055	6,600	15,232	6,349	67,238	64,717	132.61	137.67	161.34

1. Billions of 1982 Dollars
2. Millions of 1981 Dollars
3. 1982 to 1984 = 100
4. 1981 = 100
5. Thousands
6. 1971 Dollars
7. Dollars

Economic Outlook, September 1988

APPENDIX B

FORECAST COMPARISONS

TABLE B.1

REAL GROSS DOMESTIC PRODUCT
Ontario
(% Change)

	1988	1989
Conference Board August 1988	3.6	2.1
Informetrica October 1988	4.5	2.0
Ontario Hydro May 1988	3.9	2.7
Ontario Ministry of Treasury and Economics April 1988	3.7	
Royal Bank April 1988	4.8	1.8
WEFA Group June 1988	3.2	2.2
Average (w/o Hydro)	4.0	2.0

TABLE B.2

REAL GROSS DOMESTIC PRODUCT
Canada
(% change)

	1988	1989
Burns Fry July 1988	4.2	3.0
Conference Board July 1988	3.8	2.7
Data Resources (DRI) September 1988	4.1	2.1
Informetrica July 1988	3.6	2.9
McLeod, Young, Weir July 1988	3.8	1.8
Merrill Lynch July 1988	4.2	3.0
Midland Doherty July 1988	3.7	2.6
Nesbitt Thomson July 1988	3.8	2.4
Ontario Hydro September 1988	3.8	2.5
Royal Bank September 1988	4.0	1.8
WEFA Group July 1988	3.9	2.2
Wood Gundy July 1988	3.7	2.5
Average (w/o Hydro)	3.9	2.5

TABLE B.3

CONSUMER PRICE INDEX
Canada
(% change)

	1988	1989
Burns Fry July 1988	3.9	4.0
Conference Board July 1988	4.1	4.8
Data Resources (DRI) September 1988	4.1	4.9
Informetrica July 1988	3.9	3.4
McLeod, Young, Weir July 1988	4.3	4.3
Merrill Lynch July 1988	4.6	6.7
Midland Doherty July 1988	4.1	3.6
Nesbitt Thomson July 1988	4.1	5.4
Ontario Hydro September 1988	4.1	4.8
Royal Bank September 1988	4.0	4.8
WEFA Group July 1988	4.2	5.2
Wood Gundy July 1988	4.2	4.2
Average (w/o Hydro)	4.1	4.7

TABLE B.4

AVERAGE WAGE RATES
Canada
(% change)

	1988	1989
Conference Board July 1988	4.0	4.1
Data Resources (DRI) (Manufacturing) September 1988	4.7	5.3
Informetrica July 1988	3.9	3.4
Ontario Hydro (Manufacturing) September 1988	4.5	5.0
Royal Bank September 1988	3.6	4.9
WEFA Group (Manufacturing) July 1988	3.5	5.8
Average (w/o Hydro)	3.9	4.7

TABLE B.5

PRIME INTEREST RATE
Canada
(%)

	1988	1989
Burns Fry July 1988	10.1	10.3
Conference Board July 1988	9.9	11.2
Data Resources (DRI) September 1988	10.5	11.2
Informetrica July 1988	10.6	11.6
McLeod, Young, Weir* July 1988	10.0	8.75
Merrill Lynch July 1988	10.8	12.3
Midland Doherty July 1988	10.0	8.9
Nesbitt Thompson July 1988	10.3	11.3
Ontario Hydro September 1988	10.5	11.0
WEFA Group July 1988	10.4	11.0
Wood Gundy* July 1988	9.8	8.4
Average (w/o Hydro)	10.2	10.5

* Year-end value

TABLE B.6

LONG-TERM GOVERNMENT BOND INTEREST RATE
Canada
(%)

	1988	1989
Burns Fry July 1988	10.3	10.2
Conference Board July 1988	11.5	12.7
Data Resources (DRI) September 1988	10.3	11.0
Informetrica July 1988	10.8	11.8
McLeod, Young, Weir** July 1988	10.4	9.3
Merrill Lynch July 1988	10.6	12.6
Midland Doherty July 1988	9.8	8.8
Nesbitt Thompson July 1988	9.9	11.3
Ontario Hydro September 1988	10.3	10.4
Royal Bank* September 1988	10.5	11.3
WEFA Group July 1988	10.5	11.2
Wood Gundy** July 1988	9.4	8.3
Average (w/o Hydro)	10.4	10.8

* Approximation based on McLeod, Young, Weir corporate rate
** Year-end value

TABLE B.7

EXCHANGE RATE - US CENTS PER CANADIAN DOLLAR

	1988	1989
Burns Fry July 1988	81.0	82.0
Conference Board July 1988	81.4	81.2
Data Resources (DRI) September 1988	81.6	81.7
Informetrica July 1988	81.3	83.0
McLeod, Young, Weir July 1988	82.5	82.5
Merrill Lynch July 1988	81.3	78.8
Midland Doherty July 1988	80.0	77.5
Nesbitt Thompson July 1988	80.5	77.5
Ontario Hydro September 1988	80.5	80.0
Royal Bank September 1988	80.6	79.2
WEFA Group July 1988	81.0	79.9
Wood Gundy* July 1988	80.5	80.8
Average (w/o Hydro)	81.1	80.4

* Year-end value

TABLE B.8

REAL GROSS NATIONAL PRODUCT
USA
(% change)

	1988	1989
Blue Chip Consensus** August 1988	3.8	2.3
WEFA Group September 1988	3.9	2.2
Chrysler Corp*	3.7	1.4
Conference Board*	3.4	1.3
Data Resources (DRI) September 1988	4.0	2.7
Dean Witter*	4.0	2.1
Merrill Lynch*	3.6	1.7
Morgan Stanley*	3.7	2.2
UCLA Business Forecast*	4.1	2.4
Ontario Hydro September 1988	3.5	2.5

* Latest forecast given in the August 1988 issue of "Blue Chip Economic Indicators"

** The average forecast of about 50 forecasters

TABLE B.9

CONSUMER PRICE INDEX
USA
(% change)

	1988	1989
Blue Chip Consensus** August 1988	4.1	4.9
WEFA Group September 1988	3.8	4.9
Chrysler Corp*	4.2	5.2
Conference Board*	3.9	4.9
Data Resources (DRI) September 1988	4.1	5.0
Dean Witter*	4.1	5.0
Merrill Lynch*	4.2	5.1
Morgan Stanley*	4.1	5.3
UCLA Business Forecast*	4.1	4.9
Ontario Hydro September 1988	4.1	4.9

* Latest forecast given in the August 1988 issue of "Blue Chip Economic Indicators"

** The average forecast of about 50 forecasters

TABLE B.10

ENERGY PRICES*

	1988	1989	1990	1991
International Crude Oil US$/Barrel				
Data Resources (DRI)[1]	16.87	19.02	21.07	22.82
Consumers Gas[2]	17.50	18.15	19.25	20.25
Enerdata Ltd[3]	16.96	20.00	22.50	25.00
Informetrica[4]	15.50	15.50	15.50	17.05
Ontario Hydro[5]	15.00	17.20	18.75	19.75
Domestic Crude Oil Cdn$/Barrel				
Data Resources (DRI)	23.10	26.30	29.40	31.30
Consumers Gas	25.42	27.10	28.20	30.15
Enerdata Ltd	22.11	26.29	30.25	34.13
Informetrica	21.50	21.37	21.40	23.29
Ontario Hydro	21.00	23.75	26.20	27.75
Domestic Natural Gas Residential Sector Cdn$/MMBtu				
Data Resources (DRI)	6.22	6.33	6.55	6.98
Ontario Hydro	5.95	6.12	6.59	7.03
Enerdata Ltd	6.02	6.28	6.96	7.53

Note: The foregoing comparison is in nominal dollars and reflects differences in both the energy and macroeconomic (eg, inflation and exchange rates) assumptions.

Source:
1. "Canadian Energy", Summer 1988
2. Consumers' Gas, February 1988 (not updated since February 1988)
3. "1988 Long-Term Energy Price Forecast", May 1988
4. "Reference Forecast", August 1988
5. "Economic Outlook", September 1988